

PENSION SYSTEM ROLES AND RESPONSIBILITIES

Organization	Responsibility	Membership and Contact Information
Department Of Retirement Systems (DRS)	Collects and accounts for employer and employee contributions; maintains retirement record; pays benefits; communicates pension information; provides investment education; and administers the Deferred Compensation and Dependent Care Assistance Programs.	The Governor appoints the director of DRS. P.O. Box 48380, Olympia, WA 98504-8380 Tel: (360) 664-7000, in Olympia, or toll-free at 1-800-547-6657 www.drs.wa.gov
Legislative Fiscal Committees	Review and report on retirement bills to full Legislature.	The legislative fiscal committees are the House Appropriations Committee and the Senate Ways and Means Committee. House Appropriations Committee P.O. Box 40600, Olympia, WA 98504-0600 Tel: (360) 786-7204 or toll-free at 1-800-562-6000 (Legislative Hotline) www.leg.wa.gov Senate Ways and Means Committee P.O. Box 40482, Olympia, WA 98504-0482 Tel: (360) 786-7715 or toll-free at 1-800-562-6000 (Legislative Hotline) www.leg.wa.gov
Select Committee on Pension Policy (SCPP)	Studies pension issues and retirement finances. Develops pension policies and recommends pension legislation.	The Select Committee on Pension Policy is composed of four active retirement system member representatives, two retiree representatives, four employer representatives, eight state legislators and the directors of the Department of Retirement Systems and the Office of Financial Management. P.O. Box 40914, Olympia, WA 98504-0914 Tel: (360) 753-9144
Pension Funding Council (PFC)	Adopts economic assumptions for pension funding and member and employer pension contribution rates for PERS, SERS, TRS, LEOFF Plan 1 and WSPRS.	Membership consists of the directors of DRS and Office of Financial Management, and the Chairs and Ranking Minority Members of Senate Ways and Means Committee and House Appropriations Committee.
Office of Financial Management (OFM)	Advises the Governor on pension and funding policies and issues.	The Governor appoints the director of OFM. P.O. Box 43113, Olympia, WA 98504-3113 Tel: (360) 902-0555 www.ofm.wa.gov
Washington State Investment Board (WSIB)	Invests and accounts for pension funds.	Membership consists of the director of DRS; the state treasurer; the director of the Department of Labor and Industries; a state senator; a state representative; an active member of LEOFF, PERS, SERS and TRS; and a retired member of one of the seven retirement systems. P.O. Box 40916, Olympia, WA 98504-0916 Tel: (360) 956-4600 www.sib.wa.gov
Office of the State Actuary (OSA)	Acts as an advisory agency to the Legislature and DRS. Performs actuarial studies and reports on retirement bills. Creates formulas to compute benefit payment adjustments that are based on early retirement, cost-of-living or long-term survivor factors.	State actuary appointed by the Select Committee on Pension Policy. P.O. Box 40914, Olympia, WA 98504-0914 Tel: (360) 786-6140 osa.leg.wa.gov
Employee Retirement Benefits Board (ERBB)	Provides recommendations to the WSIB on self-directed investment options for defined contribution plans; determines the payment options available for Plan 3 members; approves administrative charges assessed to members who participate in self-directed investment options; and provides recommendations on investment options for the Deferred Compensation Program.	Nine active and retired representatives of TRS, PERS and SERS, a Deferred Compensation Program participant and two investment professionals appointed by the Governor. The DRS director chairs the board.
DRS Advisory Committee	Serves in an advisory role to the director of DRS on retirement administrative issues.	Fourteen members representing active and retired members of the retirement systems administered by DRS.
LEOFF Plan 2 Retirement Board	Policy-making board that studies pension issues, acts as fiduciaries of LEOFF Plan 2, sets contribution rates and recommends pension policy to the Legislature for LEOFF Plan 2 members.	Membership consists of representatives from the Legislature, law enforcement, fire fighters, and employers. P.O. Box 40918 Olympia, WA 98504-0918 Tel: (360) 586-2320 www.leoff.wa.gov



Taking our thinking to a new level

2005

WASHINGTON STATE DEPARTMENT OF RETIREMENT SYSTEMS
SUMMARY ANNUAL FINANCIAL REPORT
For the year ended June 30, 2005



FROM THE DIRECTOR

Sandra J. Matheson

As the new Director of the Department of Retirement Systems, I have had a productive and challenging year. I am fortunate to be leading an efficient agency staffed with dedicated professionals who take pride in their services to plan members and to the citizens of Washington.

The changing face of retirement is a topic currently on many people's minds. People are healthier and living longer, sometimes spending more time in retirement than in their working careers. Many people are rethinking retirement, recognizing their earned pensions increasingly need to be supplemented with other sources of income to cover health care and other costs associated with a longer retirement.

In 2005, DRS began to move our thinking to a new level, asking: *How can we better help our members prepare and plan for retirement?* We are now working with active and retired members to identify services we can provide that keep up with the changing face of retirement.

As we look at future needs, we're also continuing to ensure we meet current needs. We know the retirement process and decisions that need to be made are important and complex, so we asked ourselves: *What can we do to make the retirement process easier?* The result is a multi-year project to reduce the complexity of decision-making as members enter the retirement process.

Below you'll see a few highlights of the year, which has been one of accomplishment, transition and change. We consider it a privilege to work with those who dedicate their careers to public service and look forward to serving them in 2006.

Sincerely,

Sandra J. Matheson
Director

DRS HIGHLIGHTS

A National Leader in Cost-Effectiveness

DRS once again took part in an independent study of public pension administrators, conducted by Cost Effectiveness Measurement, Inc. For the second year in a row, the analysis showed our administrative cost (actual cost per member) to be 31 percent lower than the cost that would be expected, given the complexity of the plans we administer and level of service we provide.

New Web Site “a Hit”

In January, we launched a new Web site. Among the popular new features – a search function; “quick clicks” to the pages requested most often; and a “hot topics” section. Our site averaged more than 70,000 hits a month in 2005.

Benefit Estimator Eases Planning Ahead

Mid-year, we launched a new online service that enables members to use their actual account data, including service credit, to estimate their benefits at retirement. The online estimator is so flexible—a member can also input other numbers to calculate the impact salary and service credit changes, as well as different survivor benefit options, would have on a retirement benefit.

Service with a Smile, No Waiting

Over the year, DRS staff answered 92 percent of more than 169,000 phone calls within 30 seconds. Retirement specialists met more than 3,300 members who visited DRS in person in less than three minutes. And staff responded to 92 percent of nearly 26,000 pieces of routine correspondence within five days.

Friendly *and* fast – that's DRS.



SUMMARY OF PLAN PROVISIONS

A brief summary of retirement plans administered by DRS is provided below. For more details, refer to the plan's member handbook or visit the DRS Web site at www.drs.wa.gov.

Plan	Membership Eligibility	Vesting	Retirement Eligibility	Benefit
PERS Plan 1 <i>By 9/30/77</i>	State employees, elected officials, employees of local governments, legislative committees, community/technical colleges, classified employees of school districts, district/municipal court judges, and some employees of the Supreme, Appeals, and Superior Courts	After five years of eligible service	After 30 years of service, or at age 60 with five years service, or at age 55 with 25 years of service	2% of average final compensation (AFC) per year of service
PERS Plan 2 <i>On or after 10/1/77</i>	Same as PERS Plan 1, except classified school district employees; new employees hired on or after 3/1/02 at state agencies and higher education, or on or after 9/1/02 at all other employers, must choose Plan 2 or Plan 3	After five years of eligible service	At age 65 with five years of service, or an actuarially reduced benefit at age 55 with 20 years of service	2% of AFC per year of service
PERS Plan 3 <i>Varies by employer</i>	Same as PERS Plan 2; new employees hired on or after 3/1/02 at state agencies and higher education, or on or after 9/1/02 at all other employers, must choose Plan 2 or Plan 3	Varies	At age 65 if vested or an actuarially reduced benefit at age 55 with 10 years of service (defined benefit portion)	1% of AFC per year of service (defined benefit portion)*
SERS Plan 2 <i>On or after 9/1/00</i>	All classified employees of school districts or educational service districts	After five years of eligible service	At age 65 with five years of service, or an actuarially reduced benefit at age 55 with 20 years of service	2% of AFC per year of service
SERS Plan 3 <i>On or after 9/1/00</i>	All classified employees of school districts or educational service districts	Varies	At age 65 if vested or an actuarially reduced benefit at age 55 with 10 years of service (defined benefit portion)	1% of AFC per year of service (defined benefit portion)*
TRS Plan 1 <i>By 9/30/77</i>	All certificated public school employees who work in an instructional, administrative or supervisory capacity	After five years of eligible service	Any age with 30 years of service, or at age 60 with five years of service or at age 55 with 25 years of service	2% of AFC per year of service
TRS Plan 2 <i>On or after 10/1/77 and by 6/30/96</i>	All certificated public school employees who work in an instructional, administrative or supervisory capacity	After five years of eligible service	At age 65 with five years of service, or an actuarially reduced benefit at age 55 with 20 years of service	2% of AFC per year of service
TRS Plan 3 <i>On or after 7/1/96</i>	All certificated public school employees who work in an instructional, administrative or supervisory capacity	Varies	At age 65 if vested or an actuarially reduced benefit at age 55 with 10 years of service (defined benefit portion)	1% of AFC per year of service (defined benefit portion)*
LEOFF Plan 1 <i>By 9/30/77</i>	All full-time, fully compensated law enforcement officers and fire fighters	After five years of eligible service	At age 50 with five years of service	20 years of service = 2% of final average salary (FAS) per year of service 10 - 19 = 1.5% FAS per year of service 5 - 9 = 1% FAS per year of service
LEOFF Plan 2 <i>On or after 10/1/77</i>	All full-time, fully compensated law enforcement officers and fire fighters	After five years of eligible service	At age 53 with five years of service or a benefit at age 50 with 20 years of service reduced 3% for each year under age 53	2% of FAS per year of service
WSPRS Plan 1 <i>On or after 8/1/47 and by 12/31/02</i>	Commissioned employees of the Washington State Patrol	After five years of eligible service	At age 55 or after 25 years of service	2% of average final salary per year of service
WSPRS Plan 2 <i>On or after 1/1/03</i>	Commissioned employees of the Washington State Patrol	After five years of eligible service	At age 55 or after 25 years of service	2% of average final salary per year of service
JRS <i>On or after 8/9/71 and by 6/30/88 – New judges on or after 7/1/88 join PERS Plan 2 or 3</i>	Judges elected or appointed to the Supreme Court, the Court of Appeals and Superior Courts.	After 15 years of service	At age 60	15 years of service = 3.5% of AFC per year of service 10 - 14 = 3% of AFC per year of service

*PERS, SERS and TRS Plan 3 are defined benefit and defined contribution plans. Employers contribute to the defined benefit portion of the plan. Employee contributions are determined by the individual employee. Gain sharing payments are applied on even numbered years, if the four-year return on investments exceeds 10 percent.

DRS publishes handbooks describing the rights and benefits for each system and plan, including disability and survivor benefits. These handbooks are provided to members by their employers. They are also available from DRS and on the Web site at www.drs.wa.gov.

For more information, contact DRS at 1-800-547-6657. To receive this publication in an alternate format, call (360) 664-7097.

The Department of Retirement Systems produces the 2005 Summary Annual Report in both hard copy and electronic forms, at a cost of approximately 12 cents per member.

If you have questions about this report or would like to request additional information, please call us toll-free at 1-800-547-6657. In the Olympia area, dial 664-7000. You may also write us at P.O. Box 48380, Olympia, WA 98504-8380 or visit our Web site at www.drs.wa.gov.

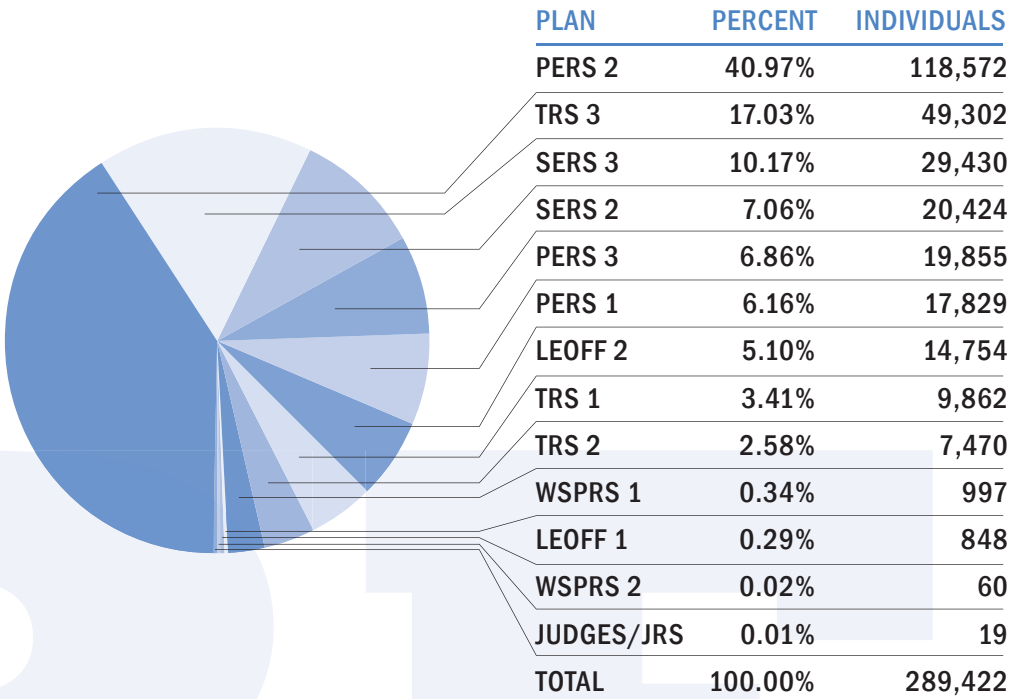
MEMBERSHIP

The State of Washington provides secure, quality retirement plans for public employees. The 14 plans managed by the state’s Department of Retirement Systems serve more than 436,000 current, past and retired employees from state and local government, kindergarten through grade 12 and higher education systems, fire, law enforcement and judicial agencies.

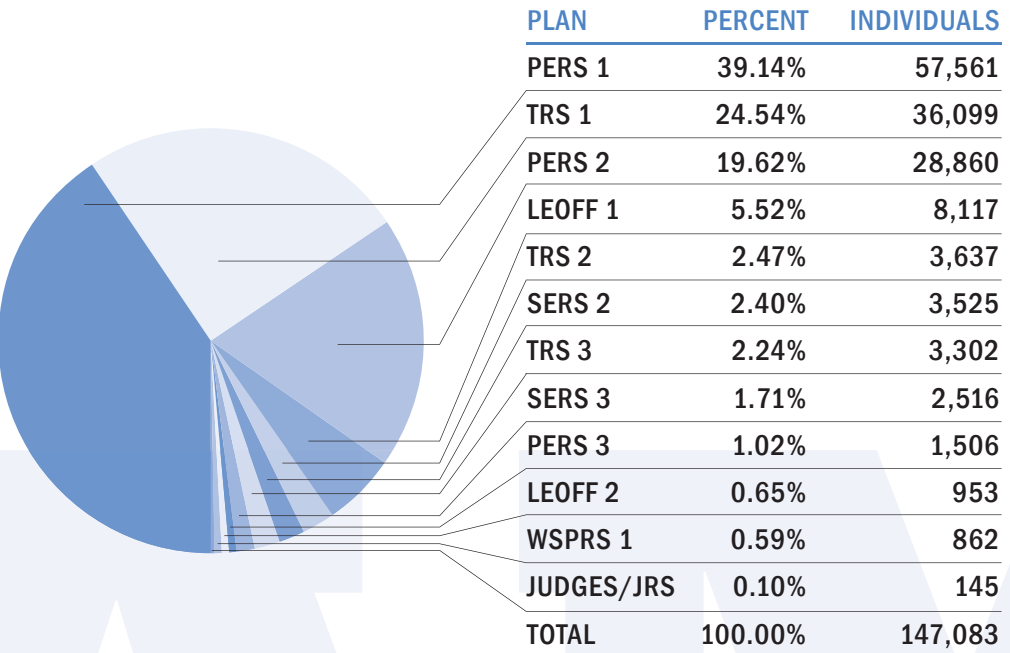
Active members, who are currently employed and paying contributions toward retirement, comprise 66 percent of the public pension participation. Remaining members are either retired or have separated from public service.

These charts illustrate the number of active and inactive/retired employees participating in the state’s retirement systems.

ACTIVE MEMBERS
BY SYSTEM AND PLAN
As of September 30, 2004



INACTIVE AND RETIRED
MEMBERS BY SYSTEM AND PLAN
As of September 30, 2004



INVESTMENT SUMMARY

The Washington State Investment Board manages retirement fund assets with the statutory requirement to maximize investment returns at a prudent level of risk. The retirement Commingled Trust Fund (CTF) increased by \$4.1 billion during Fiscal Year 2005 to \$47.5 billion. The CTF return was 13.34 percent for the fiscal year.

The table below shows the returns for the CTF on a total fund basis and by asset class.

CTF INVESTMENT RETURNS
Performance as of June 30, 2005

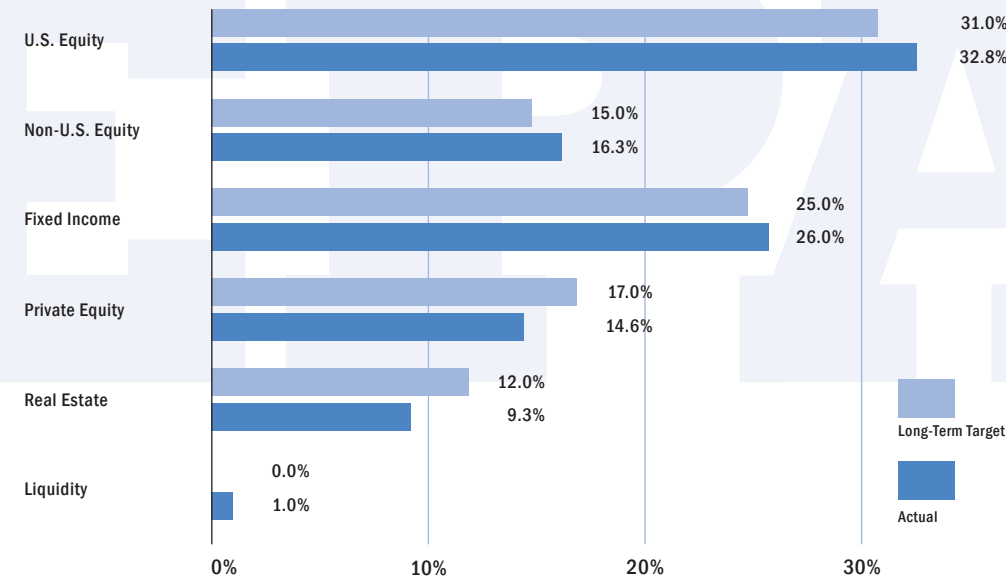
PERCENTAGE	1 YEAR	3 YEAR	5 YEAR
TOTAL FUND	13.34%	10.71%	3.63%
U.S. EQUITY	8.27%	9.98%	-1.11%
NON-U.S. EQUITY	17.91%	13.52%	1.21%
FIXED INCOME	7.03%	7.25%	8.12%
CASH	2.11%	1.54%	1.73%
PRIVATE EQUITY	27.01%	11.54%	2.55%
REAL ESTATE	22.17%	14.96%	13.45%

Investment performance is a result of two primary factors: individual asset selection and allocation of the portfolio among asset classes (e.g. stocks, fixed income, real estate).

Accordingly, the board sets a specific long-term target asset mix and adopts tight ranges around those targets to control the overall risk and return of the CTF. On a daily basis, the board reviews the asset allocation in relation to established ranges. The staff shifts assets whenever the allocation range for an asset exceeds the approved range or when cash is needed elsewhere. The board reviews changes to the overall asset mix every three to four years.

The chart below shows CTF’s asset allocation and long-term target allocations.

CURRENT ASSET ALLOCATION
AND LONG-TERM TARGET ALLOCATIONS
As of June 30, 2005



The table below shows the ten largest holdings in the CTF’s U.S. equity market index fund as of June 30, 2005. The board invests in domestic stocks as part of an equity index portfolio and not as individual stock purchases.

LARGEST U.S. EQUITY HOLDINGS
As of June 30, 2005

NAME	PERCENTAGE OF U.S. EQUITY INDEX FUND
Exxon Mobil Corporation	2.75%
General Electric Corporation	2.72%
Microsoft Corporation	1.79%
Citigroup, Inc.	1.77%
Pfizer, Inc.	1.54%
Johnson & Johnson	1.43%
Bank of America Corporation	1.36%
Intel Corporation	1.23%
American Int’l Group, Inc.	0.99%
Altria Group, Inc.	0.98%

FINANCIAL STATEMENT

PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS BY PLAN						STATEMENT OF PLAN NET ASSETS											AGENCY		TOTALS	
As of June 30, 2005 (in thousands)						PENSION TRUST														
	PERS Plan 1	PERS Plan 2/3	PERS Plan 3 Defined Contribution	SERS Plan 2/3	SERS Plan 3 Defined Contribution	TRS Plan 1	TRS Plan 2/3	TRS Plan 3 Defined Contribution	LEOFF Plan 1	LEOFF Plan 2	WSPRS Plan 1/2	JRS	JUDGES	JRA Defined Contribution	Deferred Compensation	Dependent Care	June 30, 2005	June 30, 2004		
Assets																				
Cash and Pooled Investments	\$10,196	\$7,100	\$205	\$933	\$754	\$8,571	\$1,724	\$3,029	\$3,343	\$1,820	\$859	\$493	\$4,285	\$7	\$3,326	\$547	\$47,192	\$47,951		
Total Receivables	\$42,832	\$56,328	\$9,529	\$8,792	\$10,629	\$36,123	\$23,554	\$34,717	\$20,169	\$18,901	\$2,940	\$17	\$8	—	\$789	—	\$265,328	\$269,681		
Total Investments, Noncurrent	\$10,430,674	\$13,147,010	\$982,753	\$1,871,077	\$766,993	\$8,822,711	\$4,644,003	\$2,763,478	\$5,483,003	\$3,709,013	\$788,097	\$2,081	\$648	\$14,515	\$1,921,859	—	\$55,347,915	\$49,843,438		
Other Assets	\$466	\$468	—	\$29	—	\$401	\$203	—	\$231	\$101	\$30	—	—	—	—	—	\$1,929	\$2,257		
TOTAL ASSETS	\$10,484,168	\$13,210,906	\$992,487	\$1,880,831	\$778,376	\$8,867,806	\$4,669,484	\$2,801,224	\$5,506,746	\$3,729,835	\$791,926	\$2,591	\$4,941	\$14,522	\$1,925,974	\$547	\$55,662,364	\$50,163,327		
TOTAL LIABILITIES	\$907,843	\$1,133,326	\$47,833	\$164,976	\$48,978	\$767,164	\$411,441	\$138,217	\$472,044	\$317,452	\$68,072	\$233	\$658	\$1	\$596	\$547	\$4,479,381	\$3,424,379		
Net Assets Held in Trust for Pension and Other Benefits	\$9,576,325	\$12,077,580	\$944,654	\$1,715,855	\$729,398	\$8,100,642	\$4,258,043	\$2,663,007	\$5,034,702	\$3,412,383	\$723,854	\$2,358	\$4,283	\$14,521	\$1,925,378	—	\$51,182,983	\$46,738,948		

This is a summary of the Comprehensive Annual Financial Report (CAFR) which is presented consistent with generally accepted accounting principles (GAAP) and can be obtained by calling us toll-free at 1-800-547-6657. As with the CAFR, the pension trust funds in this summary are presented using the flow of economic resources measurement focus and the accrual basis of accounting. The agency fund does not have a measurement focus and is presented using the accrual basis of accounting. However, this presentation differs from GAAP in the following respects: financial data for the dependent care special revenue fund is not included, only selected financial data rather than financial statements are included, and this report only contains abbreviated note disclosures.

ADDITIONS TO PENSION PLAN NET ASSETS

The primary sources of additions to the retirement trust funds include member and employer contributions and investment earnings. The main sources of additions to the deferred compensation plan include participant contributions and investment earnings. Total additions or revenues to the retirement trust funds and the deferred compensation plan (excluding transfers) for Fiscal Year 2005 amounted to \$6,762.5 million. This is a decrease of \$549.5 million from Fiscal Year 2004 and is primarily due to a decrease in net investment income. Additional sources and their totals are listed below.

ADDITIONS TO PENSION PLAN NET ASSETS

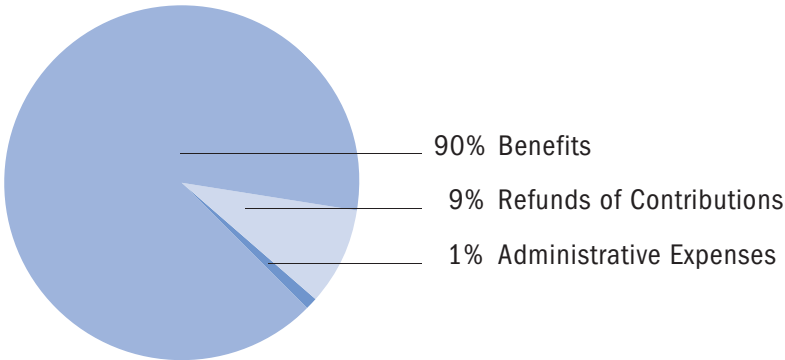
In millions	FISCAL YEAR 2005	FISCAL YEAR 2004
Retirement Contributions	\$732.5	\$703.0
Deferred Compensation Participant Contributions	160.0	147.7
Net Investment Income	5,841.7	6,429.7
Charges for Services	25.7	28.7
Other Additions	2.6	2.9
TOTAL	\$6,762.5	\$7,312.0

DEDUCTIONS TO PENSION PLAN NET ASSETS

The retirement systems’ primary trust fund deductions include the payment of benefits to retirees and beneficiaries, the refund of contributions to former members and the cost of administering the retirement systems. Total deductions to the retirement trust funds and the deferred compensation plan (excluding transfers) for Fiscal Year 2005 totaled \$2,313.7 million. This is an increase of \$164 million from Fiscal Year 2004.

Benefit payments to members, including pension and annuity benefits, totaled \$2,078.3 million for Fiscal Year 2005. Refunds totaled \$210 million. Administrative expenses, which include pension expenses incurred by DRS and the offices of the State Actuary and Attorney General, totaled \$25.4 million. Expenses for the management of trust funds are incurred by the Washington State Investment Board and funded from earnings on investments.

DEDUCTIONS TO PENSION PLAN NET ASSETS



FUNDING

Valuations are performed for all DRS-administered retirement systems on a yearly (October 1 to September 30) basis.

The actuarial value of assets available as of the latest actuarial date, September 30, 2004, for all systems was \$44,138 million. The accrued liability was \$48,423 million. The accrued liability exceeds the net actuarial value of assets available for benefits by \$4,285 million.

The ratio of assets to liabilities is 91 percent, compared to 93 percent last year. Current contribution rates remain in keeping with the goal of attaining a funding ratio of 100 percent by the amortization dates applicable to each plan, as required by the Revised Code of Washington, chapter 41.45.

The Comprehensive and Summary Annual Financial Reports use accounting methods set by the Governmental Accounting Standards Board to report accrued liabilities and annual required contributions. The Valuation (or Funding) Report issued by the State Actuary uses actuarial assumptions and methods prescribed by the Legislature to calculate required contributions under existing funding policy. For this reason, the numbers shown in this report may vary from those shown in the State Actuary's Valuation Report.